

# IRS Fact Sheet

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## **Recent Tax Law Changes Affecting Small Businesses in the Gulf Region**

FS-2006-13, January 2006

Small businesses and employers in the Gulf region receive a variety of tax breaks and incentives under the recently-enacted GO Zone legislation (Gulf Opportunity Zone Act of 2005).

The Internal Revenue Service will provide an explanation of the new laws in Publication 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita and Wilma, which will be available soon on IRS.gov. Additional information is also available at IRS.gov.

Recent changes to the tax law provide a number of benefits to businesses and other taxpayers affected by the recent hurricanes. Highlights of the new tax law provisions include:

- **Expensing for Small Businesses Increased.** Certain small businesses affected by Hurricane Katrina can annually deduct up to \$200,000 in qualifying property expenditures made in the disaster area. This is double the amount otherwise allowed for small business expensing. In addition, the phase-outs for level of investment increased from \$400,000 to \$1 million, allowing more small businesses to use this tax benefit. These provisions apply to property placed in service in the Gulf Opportunity Zone (GO Zone) after August 27, 2005 and before January 1, 2008.
- **Special Bonus Depreciation to Help Businesses Rebuild.** Businesses of all sizes affected by Hurricane Katrina can take a special first year depreciation deduction for qualified property placed in service after August 27, 2005, and before January 1, 2008. The special deduction is equal to 50% of the property's depreciable basis.
- **Deduction for Demolition and Clean-up Costs.** Taxpayers may choose to take a deduction for 50 percent of any qualified GO Zone clean-up costs that would otherwise be included in the basis of property. The deduction is allowed for the tax year in which the taxpayer paid or incurred the costs. Qualified GO Zone clean-up costs means amounts paid or incurred after August 27, 2005, and before January 1, 2008.
- **Net Operating Loss Carryback.** The carryback period is extended from two to five years for net operating losses attributable to Hurricane Katrina. This provision will allow some businesses affected by the hurricane to obtain a refund of taxes

paid in earlier tax years. Special carryback rules are also provided for certain timber losses and public utility casualty losses.

- Work Opportunity Tax Credit for Hurricane Katrina Employees. The Work Opportunity Tax Credit provides businesses with an incentive to hire individuals from groups that have a particularly high unemployment rate or other special employment needs. The credit is expanded to include persons affected by Hurricane Katrina as a targeted group of employees.
- Income Exclusion and Employer Credit for Housing Employees In the Region Affected by Hurricane Katrina. Up to \$600 per month is excluded from an employee's income for employer-provided housing in the region affected by Hurricane Katrina. Employers are also entitled to a significant tax credit for providing such housing.